CREDIT SUPPLY SURVEY

(Trends in 2nd Quarter 2026 & Outlook for 3rd Quarter 2026)

STATISTICS DEPARTMENT
CENTRAL BANK OF SRI LANKA

The Credit Supply Survey covers all Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs), from which information on lending categories Retail, Corporate, Small and Medium Enterprise (SME) and State Owned Enterprise (SOE) sectors are obtained.

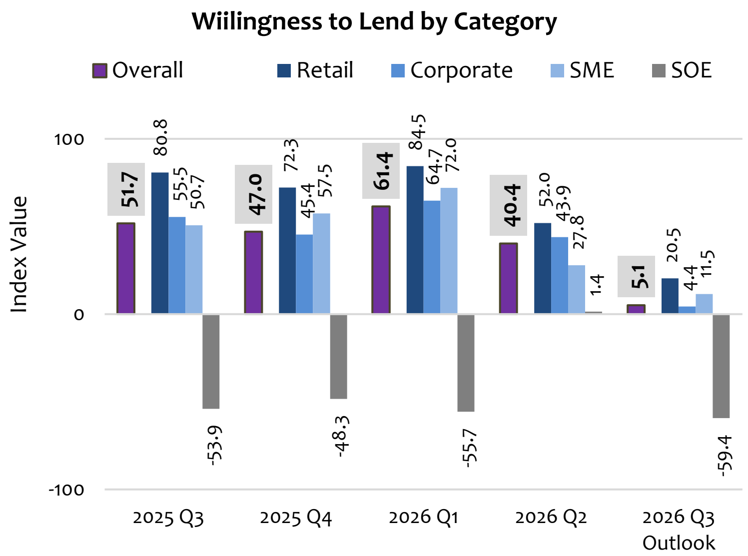
Indices are calculated as 'Diffusion Indices', that take values between -100 and 100, by weighting responses of the licensed banks using exposure of each bank to Total Gross Loan Portfolio of the banking sector. Therefore, they should be interpreted as survey-based estimates.

Key to Interpretation

- ***Index value > 0: increase***
- ***Index value < 0: decrease***
- ***Index value = 0: unchanged***

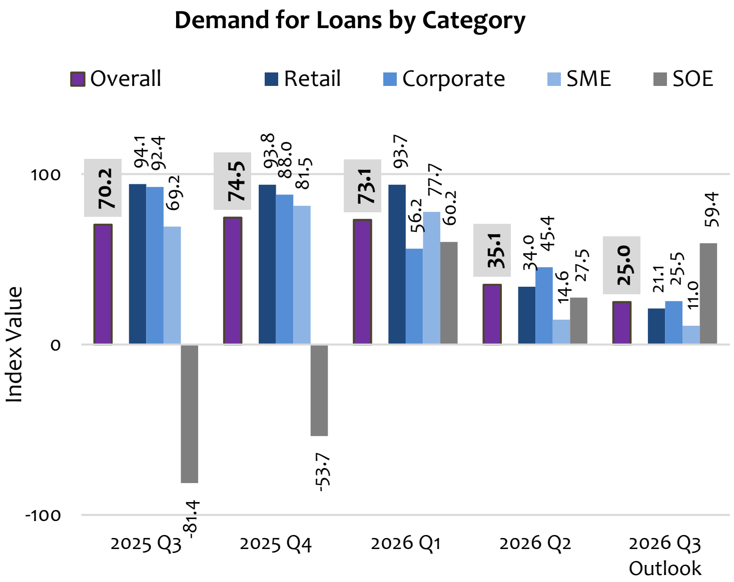
On quarter-on-quarter (Q-o-Q) basis

Willingness to Lend



- The willingness to lend of the banking sector increased at a slower pace during Q2 2026, compared to Q1 2026, amidst the tightening of monetary conditions in May 2026. This increase was observed across all four sectors namely, Retail, Corporate, SME and SOE.
- *Improved economic conditions*, *policy stability*, *favourable liquidity conditions* and *enhanced asset quality* contributed to the increase in banks' willingness to lend.
- The banks' overall willingness to lend is expected to increase at a slower pace in Q3 2026 compared to Q2 2026. This slowdown is expected to be emanated from the anticipated *inflationary pressures*, *rising operating costs*, *exchange rate volatility* and *geopolitical uncertainties*. Further, banks' willingness to lend for SOE sector is expected to decline in Q3 2026, despite the marginal increase observed in Q2 2026.

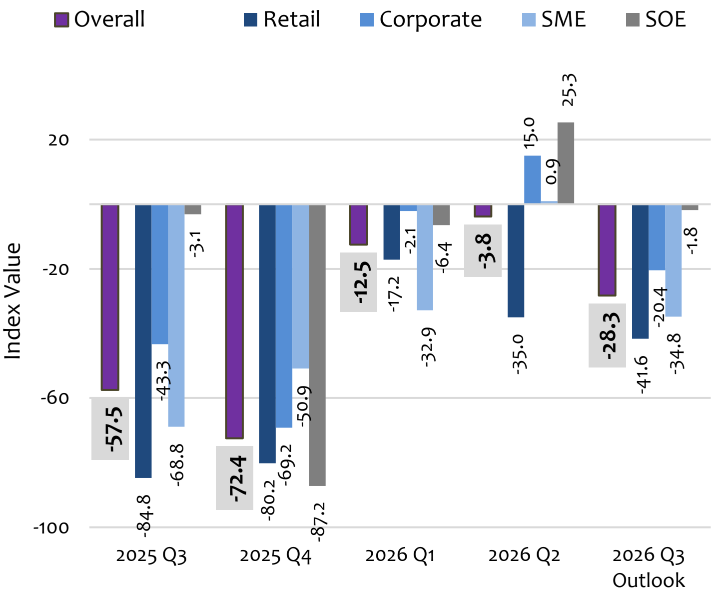
Demand for Loans



- The demand for loans increased across all four sectors during Q2 2026, yet at a moderated pace, compared to Q1 2026.
- This increase in demand for loans was largely supported by the *higher working capital requirements*, *demand for short term loans*, and *revival of investment* during the quarter.
- In particular, the demand for loans from the SOE sector continued to increase which was largely attributable to the financing of *ongoing investment projects undertaken by SOEs, particularly strategic infrastructure and renewable energy projects*.
- Meanwhile, the demand for loans is expected to increase across all four sectors during Q3 2026. This was primarily driven by the *increasing demand for working capital requirements* and *expected improvements in macroeconomic conditions.*

Non-Performing Loans

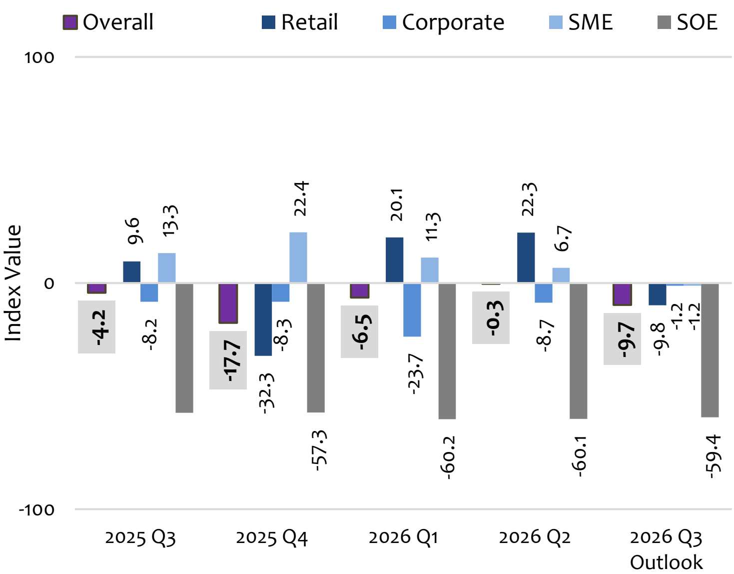
Non-Performing Loans by Category



- The portfolio-weighted survey responses indicated a decline in the overall number of Non-Performing Loans (NPLs) during Q2 2026 compared to Q1 2026, largely driven by the Retail sector. In contrast, the Corporate, SME, and SOE sectors recorded an increase according to survey respondents.
- Weakened borrowers' repayment capacity due to *cost pressures arising from exchange rate depreciation and external shocks linked to the Middle East crisis*, as well as *migration of some exposures into Stage III*, have contributed to increase in NPLs in the Corporate, SME and SOE sectors.
- During Q3 2026, the number of NPLs are expected to decline across all sectors, supported by improving economic conditions, better borrower cash flows, strong recovery measures and loan restructuring measures.

Rejected Loan Applications

Rejected Loan Applications by Category



- The overall loan application rejections declined in the banking sector during Q2 2026 compared to Q1 2026, which was primarily driven by the decline in loan applications rejections in the Corporate, and SOE sectors. Meanwhile, loan applications rejections in Retail and SME sectors increased compared to the previous quarter.
- This decline in loan application rejections across Corporate and SOE sectors was largely supported by *improved macroeconomic conditions* and the *receipt of higher quality loan proposals*, while the *stricter application of credit assessment and risk management criteria* was the major factor for increasing loan rejections in Retail and SME sectors.
- During Q3 2026, the overall loan application rejections are expected to decline across all four sectors, supported by the expected *improvements in the cash flow generation capacity of businesses due to improved economic conditions* and *continuous improvement in the credit evaluation processes*.